Investors' Newsletter（November 21, 2017）

Vol. No. 11 in 2017

CPIC（SH601601, HK02601）

Stock Data (ending Oct 31, 2017)

Total equity base (in million)	9,062
A-share	6,287
H-share	2,775
Total Cap（in RMB million）	359,791
A-share	268,958
H-share（in HKD million）	106,699
6-mth highest/lowest	
A-share (in RMB)	42.78/25.66
H-share (in HKD)	38.45/27.80

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Investor Relations Calendar

November 22, 2017
Credit Suisse Asia Financial
Corporate Day
Hong Kong

November 23, 2017
Citic Securities Investors Conference
Shen Zhen

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Premium Income (Unit: in RMB million)

	Jan. to Oct.	Changes	Oct.	Changes
P&C	85,584	9.05%	7,801	11.65%
Life	162,474	28.76%	9,128	3.19%

Briefing

Q & A for the third quarter results

Q1: CPIC Group net profit for the first three quarters grew by 23.8%, obviously picking up from the first half. Why? What is your guidance for 2018?

A: In the first three quarters of 2017, Group net profits amounted to RMB 10.926 billion, up 23.8%, mainly due to two factors. First, with continued business growth and business mix improvement, the residual margin on life insurance saw steady growth, reaching RMB 215.749 billion as of the end of first half of 2017. The amortization of the residual margin has been the main contributor of accounting profits. Second, in the first half of this year, the basic curve of traditional insurance discount rate dropped by 18 bps, and has become more flattened with rising Treasury bond yields, meaning less adverse impact on profits, particularly into the third quarter. Given current market rates, it is projected that the impact of discount rate curve on profits could turn positive in 2018.

Q2: What is the basis of your morbidity assumptions? Your critical illness products are said to have high margin and contribute a lot to value growth. But do you think the deterioration of morbidity (such as higher incidence of cancer) would have adverse impact on margin and in turn, value creation? Have you considered this possibility in pricing?

A: Our morbidity assumptions are based on, depending on products, our recent experience, the industry morbidity table (2006-2010), our own pricing assumptions and the outlook for morbidity's future development. There are usually two methods we can use to allow for worsening morbidity outlook: either setting assumptions more conservative than the actual experience, or setting assumptions based on actual experience and applying an adverse development modifier. We continuously monitor the development of actual experience and set prudent assumptions. You may also refer to our annual/interim reports which contain the sensitivity of a 10% increase in morbidity.

Q3: Your NBV grew strongly in the first half of 2017. What is your expectation for the entire year?

A: The new business value for the first half amounted to RMB 19.746 billion, an increase of 59.0%. Our third quarter report did not disclose NBV growth. But since the agency channel accounts for the vast majority of total NBV, the channel's FYP growth, which was 38.8% for the first nine months of 2017, could be a useful guide for NBV growth. Our target for the whole year remains unchanged, i.e., striving for an NBV growth higher than the average of listed peers.

Q4: Have you launched new products which can satisfy Document No. 134 requirements? What are the key products for the 2018 "jump-start"? What is your guidance for its FYP growth?

A: We have already prepared new products which met CIRC Document No.134 requirements for the "jump-start" of 2018. The products fall into two broad categories. One is long-term savings, typically participating annuity with a guaranteed interest rate of 2.5%, such as *Jubaopen*, which was officially launched on November 5 and would serve as the "pillar" product for the 2018 jump-start. The other is long-term protection, such as *Jin* product bundle, and traditional insurance like health or PA. These products will also be sold for certain periods of the jump-start. Our life business saw strong growth so far this year, with FYPs from the agency channel growing by 67.7% in the first half. Due to the high base effect and the switch of products, we are prudently optimistic about the growth outlook of the first quarter in 2018. We started preparations earlier this year in terms of customer accumulation and sales force training, in a bid to improve the performance ratio, so as to deliver a satisfactory year beginning.

Q5: Your agency channel headcount grew rapidly in the first half of the year. How have things been trending into the third quarter?

A: In the first half of 2017, our agency channel headcount reached 870,000, a growth of 49.5%. As of the end of the third quarter, the headcount was 910,000, slowing down from the first half of the year. Going forward, we do not think the strong headcount growth over the past few years is sustainable. Therefore, relative to scale, we focus more on the improvement of sales force mix and quality, incorporating indicators such as proportion of active agents, share of high-performing agents, retention, and performance ratio into the performance evaluation matrix.

Q6: The combined ratio for the first half of the year improved. How was it trending into the third quarter? What is your guidance for the entire year of 2017?

A: Underwriting profitability has always been, and will continue to be our first priority. In the first half of the year, the combined ratio dropped by 0.7 percentage points to 98.7%. Into the third quarter, while maintaining stable combined ratios, we also achieved pick-up in top-line growth, with premiums growth reaching 7.2% and 17.2% respectively for the first nine months of 2017. Our plan for the whole year was to ensure underwriting profitability, and that target remains unchanged.

Q7: Your investments in non-standard assets increased a lot since the

beginning of the year. Why? Could you provide more color on its underlying assets and credit risk?

A: In the first half of the year, there were two spikes in market rates. The supply of non-standard assets increased, with rising yields. This provided us with opportunities to allocate more towards debt investment schemes and trust plans, which offered duration and liquidity premiums and beat the cost of liabilities. Our investments in debt investment schemes covered about 20 provinces and municipalities in China, spanning sectors such as transport, municipal construction & engineering, energy, environmental protection, commercial property, land reserve, resettlement of slums, water conservancy and affordable housing. The trust plans we hold were mainly for the funding of large stated-owned non-banking financial institutions. In the management of credit risk, the majority of our non-standard investments boasted credit-worthiness enhancement measures such as guarantee and repurchase by AAA companies or pledge of assets, except for issuers which are exempt from such requirements under regulatory regulations. For non-standard assets with an external credit-rating, the share of AAA rating reached 95.0%, and that of AA+ 100.0%. Besides, we also increased allocation in short-term wealth management products for non-standard assets in a bid to stabilize the portfolio yield and mitigate market value volatility of bonds.

Regulatory Updates

- **Stable performance of the insurance industry in the third quarter, with enhanced "protection + service"**

CIRC recently released industry statistics for the first three quarters of 2017. Total premiums amounted to RMB 3,045.732 billion, up 21.01%. Of this, premiums of property and casualty insurance companies increased by 14.54%, and those of life/health insurers 23.43%. According to the regulator, the market operation showed the following characteristics:

Business growth was basically stable, with slow-down for life and health insurance. Sums assured increased rapidly. Property and casualty insurance showed signs of recovery, with primary insurance premiums reaching RMB 723.028 billion, up 13.49%, 5.72 percentage points higher from the same period of 2016. Of this, casualty and agricultural business maintained strong growth momentum, at 22.59% and 14.99% respectively. Engineering and construction picked up considerably and grew by 17.67%, due to favorable macro-economic conditions, with the growth 7.12 percentage points higher from 2016. Life/health business reported primary insurance premiums of RMB 2,322.703 billion, a growth of 23.56%, slowing down by 19.61 percentage points. Of this, life insurance premiums amounted to RMB 1,894.092 billion, an increase of 28.12%, and health premiums RMB 358.305 billion, up 4.45%.

The industry increased focus on protection, with further improvement in business mix. As for property and casualty insurance, recovery of China's macro-economy and promulgation of supportive government policies boosted the development of the sector, helping with its recovery. During the reporting period, non-auto business recorded RMB 239.946 billion in primary insurance premiums, up 24.90% and 14.42 percentage points higher than the growth of automobile business. Auto-insurance grew by 10.48%, with premiums of RMB 541.741 billion. On the side of life/health insurance, measured by gross premiums, traditional insurance accounted for 49.38%, with its share up by 13.18 percentage points; universal insurance 18.37%, down by 18.48 percentage points; participating insurance 30.64%, up by 6.88 percentage points. As for channel mix, the agency channel, which focuses on protection business, became the largest channel for life/health insurance, garnering RMB 1,100.572 billion in premiums, up by 33.73% and representing 48.61% of total business volume of life/health insurance companies, up by 3.75 percentage points. Bancassurance grew by 15.69%, with premiums of RMB 968.423 billion, an increase of 15.69% and a share of 42.77%, down by 2.86 percentage points.